

1 **INTRODUCTION TO COST ALLOCATION AND RATE DESIGN**

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3 This exhibit provides a road map to the evidence associated with cost allocation and rate
4 design, which Hydro One Distribution proposes in this submission in respect of its
5 Legacy, Acquired LDCs and Sub-Transmission customers.

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7 The G1 exhibits describe Hydro One Distribution’s proposal in a number of cost
8 allocation and rate design areas, including: maintaining the 12 customer classes approved
9 by the Ontario Energy Board (“the Board”) in Proceeding EB-2007-0681; use of the
10 Board-recommended cost allocation methodology to allocate costs to the customer
11 classes based on the modifications needed to reflect Hydro One Distribution’s
12 circumstances that were reviewed and approved by the Board in Proceeding EB-2007-
13 0681; the third and fourth step in the harmonization process approved by the Board in
14 Proceeding EB-2007-0681; use of the Board-approved rate design methodology for
15 setting the rates for the customer classes; the proposals for mitigating customer bill
16 impacts; and a number of other cost allocation and rate design issues as detailed in the
17 following Sections of this Exhibit.

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19 The G2 exhibits provide the 2010 rate schedules for all customers, including: rate
20 schedules for the Legacy customers and the rate schedule for the Sub-Transmission
21 customers, which can be found in Exhibit G2, Tab 4, Schedule 1; and rate schedules for
22 the Acquired LDCs, which are provided in Schedule 1 of Exhibits G2, Tab 5, through
23 Exhibit G2, Tab 92. The G2 exhibits also provide the miscellaneous rate exhibit.

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25 Rate schedule for 2011 will be provided once the 2011 Revenue Requirement has been
26 approved by the Board.

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1 **1.0 COST ALLOCATION STUDY**

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3 Hydro One Distribution is using the Cost Allocation methodology recommended by the
4 Board in its September 29, 2006 report, Proceeding EB-2005-0317, to allocate the
5 revenue requirement by customer group. This is the same methodology used by Hydro
6 One and approved by the Board in Proceeding EB-2007-0681. Exhibit G1, Tab 2,
7 Schedule 5 addresses the Board's recommendation with respect to Density. Hydro One
8 Distribution modified the methodology to deal with its unique circumstances, such as the
9 provision of Sub-Transmission service to Embedded customers and the additional
10 number of customer classes. The modifications are described in Exhibit G2, Tab 1,
11 Schedule 1.

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13 **2.0 CUSTOMER CLASSIFICATION**

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15 The previous customer classification is presented in Exhibit G1, Tab 2, Schedule 2. The
16 OEB approved 12 customer classes are shown below.

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18 1. Urban Residential (High Density)
19 2. R1 Residential (Medium Density)
20 3. R2 Residential (Low Density)
21 4. Seasonal
22 5. Urban General Service energy billed
23 6. Urban General Service demand billed
24 7. General Service energy billed
25 8. General Service demand billed
26 9. Sub-Transmission
27 10. Street Light
28 11. Sentinel Light
29 12. Distributed Generation
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31 More details on the 12 customer classes are presented in Exhibit G1, Tab 2, Schedule 3.

1 **3.0 HARMONIZATION OF RATE CLASSES**

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3 Hydro One Distribution will implement in 2010 the third step of the Board approved
4 harmonization plan to harmonize the rate classes for the customers of the 88 Acquired
5 Utilities into six of the 12 customer classes: Urban Residential, R1 Residential, Urban
6 General Service energy billed, Urban General Service demand billed, General Service
7 energy billed, and General Service demand billed customer classes.

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9 The evidence in support of this proposal is provided in Exhibit G1, Tab 2, Schedule 4 and
10 Exhibit G2, Tab 2, Schedule 1.

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12 **4.0 APPORTIONMENT OF REVENUE REQUIREMENT**

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14 The revenue requirement by customer class and corresponding revenue to cost ratios that
15 result from the application of the cost allocation methodology provide a guide on over or
16 under-contribution by rate group. The allocated revenue requirement for each of the 12
17 customer classes is shown in Exhibit G1, Tab 3, Schedule 1.

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19 **5.0 RATE DESIGN CONSIDERATIONS**

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21 The rate design is not changing for any customer classes from the rate design approved
22 by the Board in Proceeding EB-2007-0681. A description of Hydro One Distribution's
23 proposal with respect to rate design issues for 2010 Distribution rates is presented in
24 Exhibit G1, Tab 4, Schedule 1.

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26 The proposed 2010 target rates for the 12 customer classes is presented in Exhibit G1,
27 Tab 4, Schedule 2, rate considerations for Acquired customers is presented in Exhibit G1,
28 Tab 4, Schedule 3, and rate considerations for Sub-Transmission customers are presented

1 in Exhibit G1, Tab 4, Schedule 4. These exhibits provide a summary of the proposed
2 2010 and 2011 target Distribution rates prior to the increase to reflect the 2011 revenue
3 requirement. The rates for Acquired LDCs are harmonized using a 2 year phase-in
4 approach to deal with the wide variation of rates in the Acquired LDCs.

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6 Exhibit G1, Tab 4, Schedule 5 explains the development of the fixed service charge credit
7 for unmetered scattered load and Exhibit G1, Tab 4, Schedule 6 explains the proposal
8 with respect to the Transformer Ownership Allowance.

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10 Hydro One Distribution's proposal with respect to Low Use Secondary Service customer
11 rates is presented in Exhibit G1, Tab 4, Schedule 7.

12 13 **6.0 REGULATORY ASSET RATE RIDER # 6**

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15 Exhibit G1, Tab 5, Schedule 1, provides a description of the methodology applied by
16 Hydro One Distribution in respect to allocating the balance accrued in the 9 Regulatory
17 Asset accounts projected to December 31, 2009 to the various customer classes.

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19 Exhibit G1, Tab 5, Schedule 2 provides a description of the allocators and charge
20 determinants that Hydro One Distribution proposes to use in respect of recovering the
21 accumulated Regulatory Asset balances from the various customer classes.

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23 Rate Riders # 6 that will apply in respect of the recovery of the Regulatory Asset
24 balances are derived in Exhibit G1, Tab 5, Schedule 3.

25 26 **7.0 RETAIL TRANSMISSION SERVICE RATES**

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28 Hydro One Distribution proposes to change the Retail Transmission Service Rates
29 (RTSR) for 2010 that were approved by the Board in Proceeding EB-2008-0187. The

1 Board approved new Uniform Transmission Rates (UTR) as of July 2009 arising from
2 Proceeding EB-2008-0272 and 2010 UTR will be set in the Fall of 2009. This
3 submission contains new RTSR reflecting the July 2009 UTR. Once the new 2010 UTR
4 are approved Hydro One Distribution will update the proposed RTSR accordingly.
5 Exhibit G1, Tab 6, Schedule 1 provides the corresponding evidence in terms of the
6 methodology used and the resultant rates that would apply for the 12 customer classes.
7 Additional supporting details are presented in Exhibit G2, Tab 3, Schedule 1.

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9 The corresponding 2010 RTSR for the 12 customer classes are included in Exhibits G2,
10 Tabs 4 to 92 that contain all the applicable rates.

11 12 **8.0 CUSTOMER BILL IMPACTS AND MITIGATION**

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14 An assessment of customer bill impacts is provided in Exhibit G1, Tab 7, Schedule 1 for
15 the Legacy customers, in Exhibit G1, Tab 7, Schedule 2 for Acquired LDC customers,
16 and in Exhibit G1, Tab 7, Schedule 3 for the Sub-Transmission customers.

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18 Hydro One Distribution believes it is necessary to propose an approach which mitigates
19 bill impacts for Acquired LDCs customers. Evidence in this respect is provided in
20 Exhibit G1, Tab 8, Schedule 1.

21 22 **9.0 PROPOSAL FOR CUSTOMERS CURRENTLY ON THE INTERIM** 23 **TIME-OF-USE RATE PILOT**

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25 Exhibit G1, Tab 9, Schedule 1 provides information on Hydro One Distribution proposal
26 for the customer currently enrolled in the Interim Time-of-Use rate pilot.

1 **10.0 DISTRIBUTION LOSS FACTORS**

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3 A description of the proposed Total Loss Factors are included in Exhibit G1, Tab 10,
4 Schedule 1, and are also included in the corresponding Rate Schedules for Legacy,
5 Acquired and Sub-Transmission customers in Exhibit G2, Tabs 4 to 92. The proposed
6 loss factors are unchanged from the loss factors approved by the Board in Proceeding
7 EB-2007-0681.

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9 **11.0 MISCELLANEOUS RATES**

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11 The proposed rates for Miscellaneous charges can be found in Exhibit G2, Tab 93,
12 Schedule 1 and in the corresponding Rate Schedules for Legacy, Acquired and Sub-
13 Transmission customers in Exhibits G2, Tabs 4 to 92.

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15 **12.0 2010 AND 2011 REVENUE REQUIREMENT UPDATE**

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17 Hydro One has not updated the detailed rate schedules and bill impacts to reflect the
18 change in 2010 and 2011 Revenue Requirement contained in the updated evidence filed
19 September 25, 2009. The change in Rates Revenue Requirement resulting from the
20 updated evidence is minimal and Hydro One will fully update the rate schedules and bill
21 impacts once the ROE is finalized for 2010.